

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**Telecommunications Division
Public Programs Branch**

**RESOLUTION T-16561
October 25, 2001**

RESOLUTION

RESOLUTION T-16561- ALL TELECOMMUNICATIONS CARRIERS.
TO ADOPT THE FISCAL YEAR 2002-03 BUDGET FOR THE UNIVERSAL
LIFELINE TELEPHONE SERVICE PROGRAM WHICH INCLUDES THE
LIFELINE TELEPHONE SERVICE AND MARKETING PROJECTS.

BY LETTER REQUEST, DATED MAY 25, 2001, TO THE EXECUTIVE
DIRECTOR

SUMMARY

This resolution adopts a fiscal year (FY) 2002-03 budget of \$284.447 million for the Universal Lifeline Telephone Service (ULTS) program and to maintain the surcharge rate at 1.45% for the FY 2002-03 (July 1, 2002 through June 30, 2003). The surcharge remitted by all telecommunications carriers will fund the ULTS program and marketing projects to promote ULTS service to low-income households.

The California Legislature passed Senate Bill (SB) 669 and the Governor signed SB 669 in October 1999. The provisions of SB 669, as amended by SB 742 in 2001, were implemented on October 1, 2001 as the ULTS Trust Administrative Committee Fund (TAC Fund) and funds for four other programs are now with the State Controller. Since the ULTS TAC Fund must be part of the fiscal year State Budget process, the Commission, by approving this budget resolution on a fiscal year basis, will conform with the State Budget process for FY 2002-03.

BACKGROUND

1. ULTS Program:

The ULTS program was established in 1984 (Decision 84-11-028) pursuant to Public Utilities Code Section 871. The program provides discounted basic service to low-income households. The Commission, in Decision 87-07-090, authorized a 4% surcharge on service rates of intrastate inter-Local Access and Transport Area (LATA) services beginning on July 29, 1987. The surcharge was extended to intrastate intraLATA toll

beginning on January 1, 1988 to provide adequate funding for the program. In Decision 94-09-065, the surcharge was further extended to all end users services, except for specific exceptions, on January 1, 1995.¹ Appendix A-2 lists the historical ULTS surcharge rates since the inception of the program.

The Commission established the ULTS-Trust Administrative Committee (ULTS-TAC) in Decision 87-10-088. Prior to October 1, 2001, the ULTS-TAC² was responsible for the ULTS Trust and the administration of the financial aspects of the ULTS program. The ULTS-TAC performed administrative functions for the ULTS programs, received surcharges, made payments on claims from carriers, and provided investment advisory for ULTS Trust assets. The ULTS Trust office had seven full-time employees who handled daily administrative and financial responsibilities of the ULTS program and ULTS-Marketing Board (ULTS-MB).

The Commission established the ULTS-MB³ in Decision 97-12-105. The ULTS-MB began its activities in January 1998 as an entity with the objective of marketing the ULTS program in a competitive environment. The marketing focus is to achieve the ULTS program goal of providing basic telephone service to all qualifying low-income households. The ULTS program provides subsidized basic telephone service to qualifying low-income households.⁴ Prior to October 1, 2001, the ULTS-MB was responsible for the development of the yearly marketing budget and competitively neutral marketing strategies, as well as overseeing the implementation of the ULTS marketing campaigns.

In October 2001, the Telecommunications Division (TD) assumed the administrative responsibilities for the ULTS program including the administrative functions for the ULTS-MB as the provisions of Public Utilities (PU) Code Section 270 et al was implemented.

2. PU Code Sections 270 et al.

¹ Assembly Bill (AB) 386 was enacted on July 15, 1987 to replace AB 1348 (1983) and to provide funding for the ULTS program. AB 386 did not, after establishing an initial rate, provide specific directions for establishing surcharge rates or the related amount of reserve for the ULTS Fund. However, the legislation allows the Commission to “determine any questions of fact in the administration of this article.”

² Pursuant to Public Utilities Code Section 277(a) the ULTS Trust Administrative Committee will no longer have administrative responsibilities on October 1, 2001 and thereafter. Instead, the committee will have an advisory role and will continue to be known as ULTS Trust Administrative Committee.

³ Pursuant to PUC Code Section 277(a), the ULTS Marketing Board will no longer have administrative responsibilities on October 1, 2001 and thereafter. Instead, the committee will have an advisory role.

⁴ At the end of 2001, the forecasted number of ULTS customers in California is approximately 3.7 million.

The California Legislature passed SB 669 and the Governor signed SB 669 in October 1999. The provisions of SB 669, as amended by SB 742 in 2001, are codified as Chapter 1.5 (beginning with Section 270) to Part I, Division 1 of the PU Code. PU Code Section 270 provides for the creation of the ULTS Trust Administrative Committee Fund and five other funds in the State Treasury. The following are the major requirements of SB 669, as amended by SB 742, which have been included in the PU Code:

- a. Section 277(a) provides for the creation of the ULTS Trust Administrative Committee (an advisory board) to develop, to implement, and to administer the ULTS program.
- b. Section 277 (b) provides that all revenues collected by the telecommunications carriers authorized by the Commission to fund the ULTS program shall be submitted to the Commission on a schedule established by the Commission. Beginning on October 1, 2001, and thereafter, the Commission shall transfer the money received and all unexpended revenues collected prior to October 1, 2001 to the Controller for deposit in the ULTS Trust Administrative Committee Fund. All interest earned by moneys in the fund shall be deposited in the fund.
- c. Section 273(a) provides that the created ULTS advisory board submits an annual budget to the Commission, who shall act on the submitted budget within ninety calendar days after receipt of the ULTS budget.
- d. Section 274 provides for the financial and compliance audits of the ULTS program costs and activities at least once every three years, beginning July 1, 2002.

3. Resolution T-16435

In Resolution T-16435, dated December 21, 2000, the Commission adopted the FY 2001-02 ULTS budget. In Resolution T-16435, the Commission approved the following: (a) a total ULTS program budget of \$281.609 million, (b) a surcharge rate of 1.45%, effective July 1, 2001 and (c) projected fund balance of \$76.966 million. Expense estimates relating to the implementation of P.U. Code Sections 270, et al, known at that time were also adopted.

4. Resolution T-16594

In Resolution T-16594, dated October 10, 2001, the Commission approved a revised FY 2001-02 ULTS budget of \$281.684 million and a surcharge rate of 1.45%, effective

November 1, 2001 and to remain in effect until revised by the Commission. The revised FY 2001-02 ULTS budget incorporated the State Budget approval of program expenses associated with the implementation of Public Utilities (PU) Code 270 through 281 (Chapter 1.5 to Part 1, Division 1 of the PU Code).

NOTICE/PROTESTS

On May 25, 2001, the ULTS-TAC and ULTS-MB jointly submitted to the Commission a proposed FY 2002-03 budget of \$9,011,726. A copy of this budget filing was mailed to the service list of R-95-01-020. This filing was publicly noticed on the Commission's Daily Calendar on June 4, 2001, stating that any comments and/or protests must be made in writing and received by the Commission within 20 days. No protests to the budget letter request have been received.

BUDGET FILING PROCESS

To comply with the requirements of the PU Code Section 273 (a), the ULTS-TAC and ULTS MB must jointly submit a proposed budget through a letter request to the Commission on or before June 1 (or the next business day if June 1 is not a business day). The Commission has ninety days to approve the proposed ULTS budget since the Commission must submit a Budget Change Proposal for the ULTS program to the Department of Finance (DOF) by September 1. In order for the Commission to fulfill this obligation in a timely manner in the year 2002, the Commission will require the ULTS-TAC and ULTS-MB to file by June 1, 2002 (or the next business day if June 1 is not a business day) a proposed budget and a proposed surcharge level for fiscal year 2003 – 2004 for Commission approval.

In future years under the provisions of PU Code Section 277(b), if the State budget, which includes the ULTS budget expenses, is not adopted by the Legislature and signed by the Governor on or before the beginning of the fiscal year, payments for any ULTS related claims and other expenses, including contracts, will not be paid. Thus, the ULTS claim payments to carriers and other payments are contingent on approval of a state budget.

By approving this resolution on a fiscal year basis, the Commission will conform with the State Budget process.

DISCUSSION

On May 25, 2001, the ULTS-TAC and ULTS-MB jointly filed a proposed FY 2002-03 program budget for adoption by the Commission. The budget was prepared using a

“zero-based” budgeting approach and the budget includes “projected costs for completing tasks” that were assigned to ULTS-TAC and ULTS-MB. The FY 2002-03 budget is \$9,011,726, exclusive of carrier claims for ULTS services of \$275 million, consists of \$1,847,618 and \$7,164,108, for the ULTS-TAC and the ULTS-MB, respectively. Tabulations of the proposed budgets are set forth in Appendix A-1 of this resolution. The ULTS-TAC’s proposed FY 2002-03 budget covers administrative expenses. The ULTS-MB’s proposed FY 2002-03 budget covers administrative expenses, ULTS marketing program expenses including call center, and marketing program assessment study. As mentioned previously, the implementation of PU Code 270 et al, ULTS-TAC and ULTS-MB will only have an advisory role, and, therefore, these two boards will not have administrative responsibilities as assumed in their joint budget filing.

TD staff recommends that the Commission adopt the following budget reflecting the implementation of PU Code 270 et al:

- The ULTS program budget for FY 2002-03 in the amount of \$284.447 million.
- The maintenance of the surcharge rate at 1.45% for the FY 2002-03 until revised by the Commission.

This total ULTS program budget of \$284.447 million consists of the following components:

	<u>Amount</u> (\$ In Thousands)
Carrier Claims for ULTS Service	\$275,000
Marketing Projects	6,700
Administrative / Staff	440
Interagency	508
Other Expenses	1,799
TOTAL	<hr/> \$ 284,447 =====

Carrier Claims – TD included \$275 million for FY 2002-03 claims by ULTS providers. For FY 2001-02, the Commission adopted \$274 million. The forecasted increase in claims by \$1 million for FY 2002-03 reflects the possible additional ULTS customers resulting from the possible increase of awareness of the ULTS program from marketing efforts including the Call Center.

Marketing Projects - TD included \$5 million for the Permanent Marketing Plan (PMP), \$1.5 million for Call Center, and \$200,000 for Program Assessment for the FY 2002-03 budget. The PMP includes implementing the marketing campaigns and outreach programs for ULTS. A Call Center enhances the marketing program efforts by providing an avenue for potential ULTS customers to contact and request additional information on the ULTS program. For example, a Call Center will be able to serve as an educational resource and as a competitively neutral referral source for potential ULTS customers. Results from the interim marketing program, Phase I, indicated a separate Call Center is essential to the successful expansion of the ULTS program. In D.97-12-105, the Commission stated that the marketing projects budget should not exceed the average of the annual ULTS expenses reimbursed to all carriers for the previous three years that carriers provided ULTS marketing services. In resolutions⁵ issued after the issuance of D.97-12-105 the Commission has interpreted this request to impose a \$5 million cap on annual expenditures for marketing. However, TD staff believes that additional costs of \$1.5 million for the Call Center are reasonable and should be incurred in order to expand subscription to Lifeline service by eligible customers. Accordingly, TD staff recommends that the Commission increase the \$5 million cap to \$6.5 million.

TD included \$200,000 for the Marketing Assessment study for the FY 2002-03 budget. Resolution T-16366 adopted a \$200,000 annual budget for calendar year 2000. Since the assessment is an annual ongoing activity, this resolution adopts the requested level of \$200,000 for Market Assessment.

Administrative/Staff - Since October 1, 2001, state employees perform the administrative functions for the ULTS program. TD included costs for three staff positions in the TD and allocated staff costs from the Information Management Services Division for the ULTS program. The total staff costs for FY 2002-03 is \$440,000, which does not include any salary increase for FY 2002-03.

Audits - TD included \$1.720 million for FY 2002-03 for four different types of audits: \$20,000 for the financial audit, \$500,000 for the compliance audit, \$600,000 for surcharge remittance audits, and \$600,000 for carrier claim audits. The financial and compliance audits will involve a review of ULTS program financial records, contracts, and other compliance issues consistent with the PU Code Section 274. The surcharge remittance and claim audits will review various local exchange telephone carriers' (LECs) practices and procedures for ULTS claims and surcharge remittances. The audit will examine the accuracy of the surcharges carriers remitted by LECs to the ULTS program, as well as

⁵ Resolution T-16176, dated August 6, 1998, adopted one half (or \$2.5 million) of ULTS proposed \$5 million calendar year 1998 budget for the remaining months of calendar year 1998 for ULTS marketing programs. Resolution T-16245, dated December 3, 1998, adopted a \$7 million 1999 calendar year budget for ULTS marketing programs.

the accuracy of the claims LECs submit and payments they receive from the ULTS program.

Other Expenses - TD included \$508,000 for SB 669 interagency costs, \$61,000 for Advisory Committee expenses and \$18,000 for banking service expenses.

ULTS Surcharge - TD recommends that the current ULTS surcharge rate of 1.45% is to remain in effect until revised by the Commission. For purposes of estimating the surcharge level, TD staff has omitted the investment income for calculation purposes after June 30, 2002 because the interest earnings thereon, after transfer of the Fund to the State Treasury, are indeterminable. Interest earnings will not materially impact the surcharge estimate.

The ULTS surcharge rate of 1.45% will generate \$230.159 million in surcharge remittance revenues for FY 2002-03. The surcharge remittance revenue is based upon a lower billing base of \$15,873 million from the previously proposed billing base of \$19,847 million for FY 2002-03. Based on the sharp downturn of the telecommunications revenues subject to surcharges reported to the Commission by telecommunications carriers in recent months and the growing concerns about the health of the national economy, the estimated telecommunications revenues subject to surcharges were revised to \$15,181 million for FY 2001-2002, as adopted in Resolution T-16594, dated October 10, 2001. The revised forecast for FY 01-02 was based on the average reported telecommunications revenues subject to surcharges in recent months, annualized compounded by a reduction of \$411 million. This \$411 million adjustment reflects the anticipated amount of "catch-up" surcredits that will be implemented by Pacific Bell and Roseville Telephone Company during FY 01-02 pursuant to D.98-11-039. The revised forecast for FY 02-03 of \$15,873 million represents a growth rate of 1.8% (UCLA Anderson Forecast, September 17, 2001) from FY 01-02.

The adoption of a surcharge rate of 1.45% will result in funding the ULTS total expenses of \$284.447 million for FY 2002-03, and will leave an estimated fund balance of \$1.009 million on June 30, 2003.

The TD recommendations to adopt a FY 2002-03 budget of \$284,447,000 for total ULTS expenses and surcharge rate of 1.45% for FY 2002-03 are reasonable. This resolution adopts a FY 2002-03 budget of estimated annual claims of \$275,000,000 for reimbursement to carriers for providing ULTS services. At the same time, this resolution adopts a FY 2002-03 budget of \$6,700,000 for marketing projects including a Call Center. Finally, this resolution adopts a FY 2002-03 budget for \$2,747,000 for audits and other expenses, and on-going costs for the implementation of PU Code 270 et al. The adopted ULTS FY 2002-03 budget is included in Appendix A-1 of this resolution.

NOTICE OF AVAILABILITY OF CONFORMED RESOLUTION

In order to be consistent with the Commission's commitment to utilize the CPUC Internet web site for distributing Commission orders and information, TD has informed all telecommunications carriers of the availability on the Commission's web site, www.cpuc.ca.gov, of the conformed copies of this resolution, when adopted by the Commission. In addition, a hard copy of the conformed resolution will be mailed to all parties on the service list of R.98-09-005/I.95-01-020/021.

COMMENTS

A Notice of Availability of TD staff's draft resolution in this matter was mailed on July 24, 2001 to all telecommunications carriers, advising them of the availability of this draft resolution on the Commission's web site, www.cpuc.ca.gov, in accordance with PU Code Section 311(g). Hard copies of the draft resolution were mailed to the parties of record in R.98-09-005, and I.95-01-020/021 on July 24, 2001.

No comments were received by TD regarding this resolution.

FINDINGS

- 1) The Universal Lifeline Telephone Service (ULTS) program total budget from July 1, 2002 to June 30, 2003 (FY 2002-03) of \$284,447,000 is reasonable and should be adopted.
- 2) The ULTS surcharge rate should remain at 1.45% for the FY 2002-2003 until revised by the Commission.
- 3) The ULTS surcharge rate of 1.45% provides sufficient revenue to fund projected ULTS program expenses through June 30, 2003.
- 4) The ULTS surcharge rate of 1.45% will provide a reserve balance of \$1.009 million as of June 30, 2003.
- 5) A Call Center will aid the ULTS marketing efforts.
- 6) The \$1.5 million amount for a Call Center is reasonable.
- 7) The total marketing projects budget for FY 2002-03 of \$6.700 million is reasonable.
- 8) In order to conform with the State Budget, the budget process requires changing the filing of proposed program budgets and surcharge levels on a fiscal year basis.

- 9) The ULTS Administrative Committee and ULTS Marketing Board should jointly file a proposed fiscal year 2003 – 2004 budget for Commission approval by or before June 1, 2002 (or the next business day if June 1 is not a business day).

THEREFORE, IT IS ORDERED that:

- 1) The Universal Lifeline Telephone Service (ULTS) program total budget from July 1, 2002 to June 30, 2003 (FY 2001-02) of \$284,447,000 is adopted.
- 2) The current ULTS surcharge rate of 1.45% is adopted for FY 2002-03 until revised by the Commission.
- 3) The 1.45% surcharge rate to fund the ULTS Program shall be applied to all surchargeable intrastate billings rendered on or after July 1, 2002. This surcharge rate shall continue until further revised by the Commission.
- 4) The FY 2002-03 budget proposal of \$1.5 million for a Call Center is adopted.
- 5) The total FY 2002-03 budget for marketing projects of \$6,700,000 is adopted.
- 6) The ULTS Administrative Committee and ULTS Marketing Board shall jointly file a proposed fiscal year 2003 – 2004 budget for Commission approval by or before June 1, 2002 (or the next business day if June 1 is not a business day).

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on October 25, 2001. The following Commissioners approved it:

/s/ WESLEY M. FRANKLIN

WESLEY M. FRANKLIN
Executive Director

LORETTA M. LYNCH
President
HENRY M. DUQUE
RICHARD A. BILAS
CARL W. WOOD
GEOFFREY F. BROWN
Commissioners

Appendix A-1

UNIVERSAL LIFELINE TELEPHONE SERVICE TRUST ADMINISTRATIVE COMMITTEE FUND				(C)	(D)
PROGRAM BUDGET FOR FISCAL YEAR 2002-03				ULTS-TAC & ULTS -MB	Commission
				PROPOSED	Adoption
				FY 2002-03	FY 2002-2003
					(Res. T-16561)
1	BEGINNING FUND BALANCE			\$ 110,775	\$ 55,297
	REVENUES				
2	PROJECTED BILLING BASE			19,847,690	15,873,000
3	SURCHARGE RATE			1.25%	1.45%
4	SURCHARGE REVENUE (L2 X L3)			248,096	230,159
	OTHER INCOME				
5	INVESTMENT INCOME			-	-
6	INTEREST			-	-
7	PENALTY			-	-
8	TOTAL OTHER INCOME (L5+L6+L7)			-	-
9	TOTAL REVENUE (L4+L8)			248,096	230,159
	PROGRAM EXPENSE				
10	CLAIM PAYMENTS			275,000	275,000
	AUDITS				
11	FINANCIAL AUDIT			16	20
12	COMPLIANCE AUDIT			500	500
13	REMITTANCE AUDIT			-	600
14	CARRIER AUDIT			600	600
15	TOTAL AUDITS (L 11+L12 +L13+L14)			1,116	1,720
	BANKING FEES				
16	TRUST			-	-
17	LOCKBOX			-	18
18	TOTAL BANKING FEES (L16+L17)			-	18
	ADVISORY COMMITTEE EXPENSES				
19	PER DIEM			37	37
20	TRAVEL & OTHER EXPENSES			24	24
21	TOTAL COMMITTEE EXPENSES (L19+L20)			61	61
	MARKETING PROJECTS				
22	MARKETING PROGRAM			5,000	5,000
23	CALL CENTER			1,500	1,500
24	MARKET RESEARCH				-
25	PROGRAM ASSESSMENT			250	200
26	TOTAL MARKETING EXPENSE			6,750	6,700
27	TOTAL PROGRAM EXPENSES (L10+L15+L18+L21+L26)			282,927	283,499
	ADMIN/STAFF				
28	EXTERNAL STAFF & RELATED EXPENSES			484	-
29	ALL OTHER EXTERNAL OPERATING EXPENSES			275	-
30	SB 669 INTERNAL STAFF *			325	440
31	TOTAL ADMIN/STAFF (L22+L23+L24)			1,084	440
32	SB 669 INTERAGENCY COST				508
33	TOTAL EXPENSES (L10+L15+L18+L21+L26+L31+L32)			284,011	284,447
34	PROJECTED ENDING BALANCE (L1+L9-L25)			74,860	1,009
* 1. Portion of the amount FOR SB 669 Internal Staff includes Bldg. Addition for IMSD staff allocated to this program.					
2. Beginning balance for fiscal year 2002-03 reflects more current information of ULTS program fund.					

Appendix A-2
ULTS Surcharge Rate

The following are the historical ULTS surcharge rates since the inception of the program:

<u>Beginning</u>	<u>Decision or Resolution</u>	<u>Rate</u>
July 1, 1988	T-12093	4.0%
July 1, 1989	T-13071	2.5%
July 1, 1990	T-14081	3.4%
July 1, 1991	T-14081	3.0%
July 1, 1992	T-14960	4.0%
March 1, 1993	T-15221	5.0%
July 1, 1993	T-15322	6.0%
July 1, 1994	T-15558	6.0%
January 1, 1995	Decision 94-09-065	3.0%
January 1, 1996	T-15799	3.2%
January 1, 1997	T-15984	3.2%
January 1, 1998	T-16176	2.4%
January 1, 1999	T-16245	0.0%
January 1, 2000	T-16366	0.5%
January 1, 2001	T-16412	0.8%
June 1, 2001	T-16435	1.45%
November 1, 2001	T-16594	1.4%

Appendix A-3
ULTS Customers

The number of ULTS customers has grown steadily since 1987 and is estimated to reach 3.7 million by December 31, 2001.

The following table illustrates the growth in ULTS customers:

	<u>ULTS Customers</u>
June 30, 1987	1,095,293
June 30, 1988	1,254,647
June 30, 1989	1,387,100
June 30, 1990	1,552,800
June 30, 1991	1,761,200
June 30, 1992	1,951,100
June 30, 1993	2,321,500
June 30, 1994	2,580,000
June 30, 1995	2,700,000
December 31, 1995	3,100,000
December 31, 1996	3,050,000
December 31, 1997	3,109,000
December 31, 1998	3,215,000
December 31, 1999	3,350,260
December 31, 2000	3,604,880 (projected)
December 31, 2001	3,704,448 (estimated)